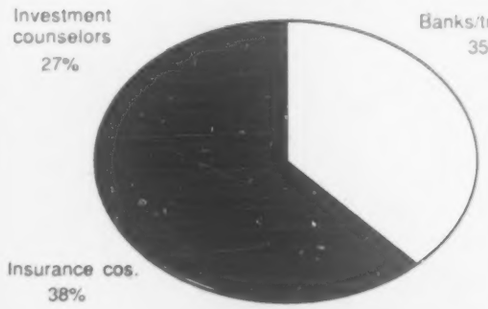
Profile statistics at a glance

Total managers profiled	1,010
Banks, trust cos. and subsidiaries	227
Insurance cos. and subsidiaries	76
Investment counselors	668
Canadian managers*	39
Total portfolio managers employed	6,687
Total security analysts employed	5,419
Stocks watched closely (average)	
By banks	200
By insurance companies	335
By investment counselors	205
Stocks watched generally (average)	
By banks	665
By insurance companies	1,307
By investment counselors	832
Percentage of in-house research (average)	
By banks	52
By insurance companies	67
By investment counselors	67
No. of managers using options	266
No. of managers using stock-index futures	138
No. of managers using fixed-income futures	132
Total assets managed ($ millions)	3,035,276
Top 200	2,291,782
Top 100	2,054,358
Tax-exempt assets managed ($ millions)	1,686,676
Top 200	1,412,111
Top 100	1,157,810
Tax-exempt assets managed ($ millions)	
Banks, trust cos. and subsidiaries	581,394
Insurance cos. and subsidiaries	487,055
Investment counselors	618,227
Real estate assets managed ($ millions)	96,082
Equity real estate	78,375
Mortgages	17,707
Mortgage-backed securities	34,462
International assets managed ($ millions)	54,717
Equity	35,562
Bonds	13,524
Cash	3,631
Assets invested in GICs ($ millions)	117,195
Assets invested in 401(k) 457 plans ($ millions)	61,897

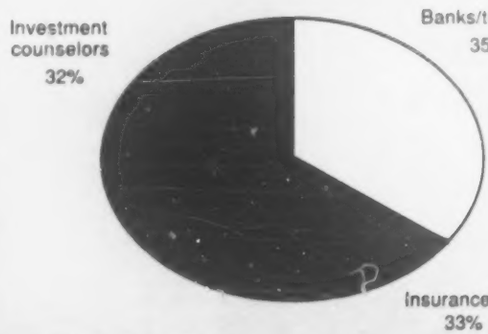
*All other statistics exclude Canadian managers.
Reprinted from May 23, 1988 issue

Who manages the money?

(the top 100)

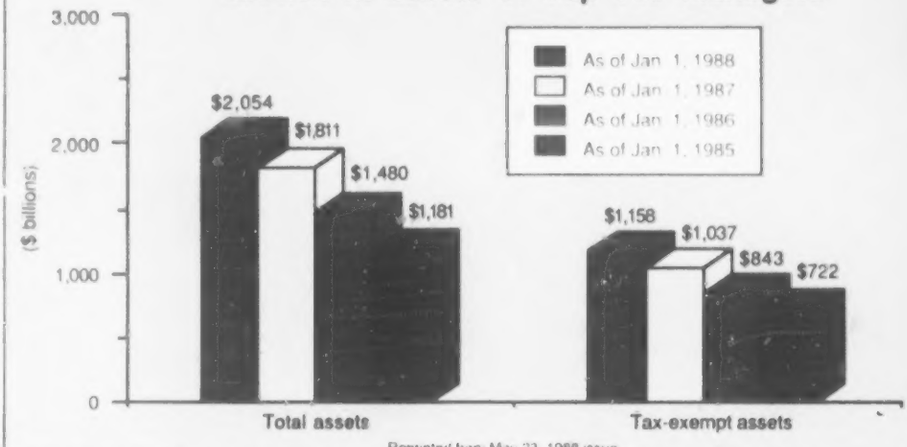


(the top 200)



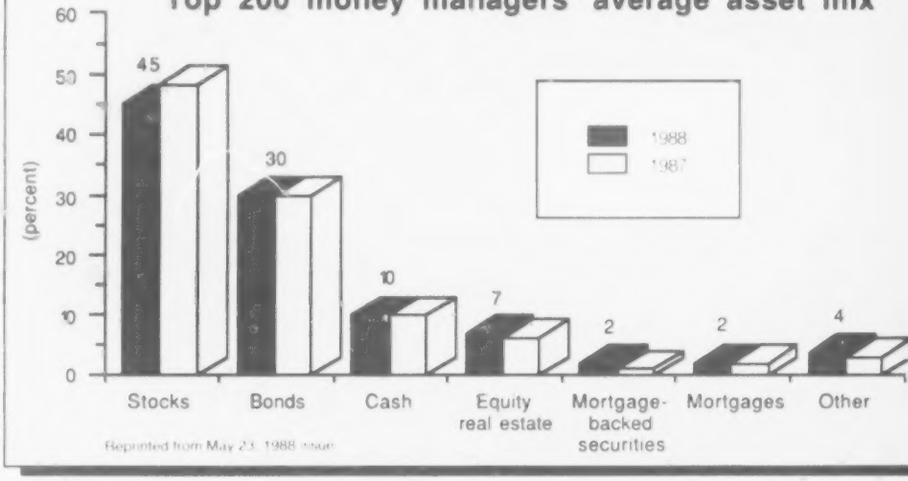
Reprinted from May 23, 1988 issue

Growth in assets of Top 100 managers



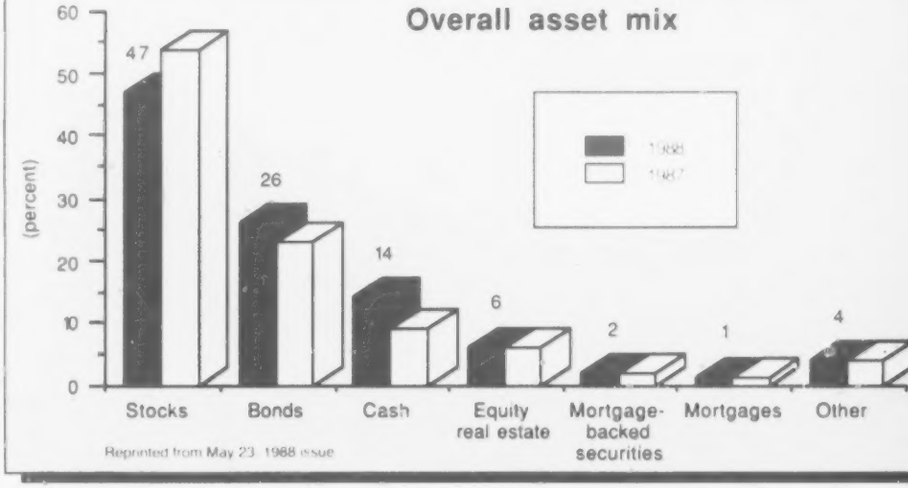
Reprinted from May 23, 1988 issue

Top 200 money managers' average asset mix



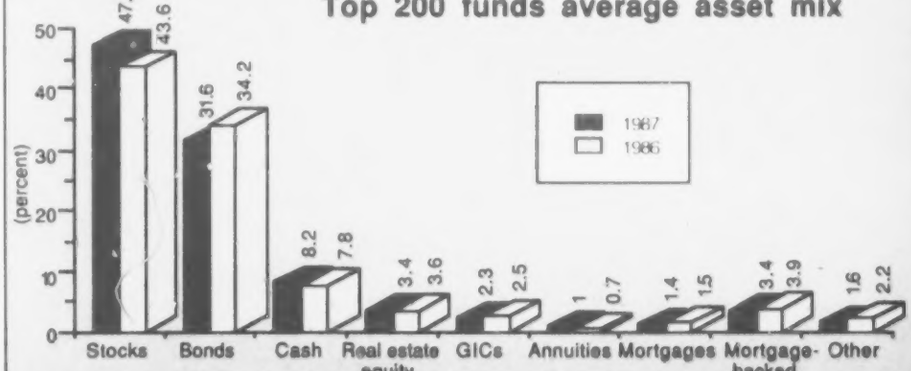
Reprinted from May 23, 1988 issue

Overall asset mix



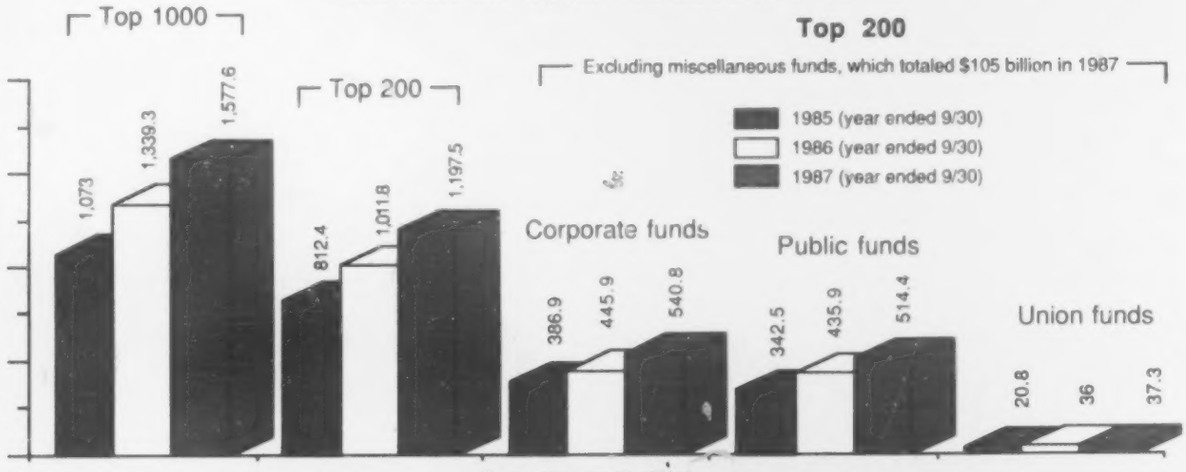
Reprinted from May 23, 1988 issue

Top 200 funds average asset mix



Reprinted from Jan. 25, 1988 issue

Growth in total assets ($ billions)



Reprinted from Jan. 25, 1988 issue

1988 underwriting rankings

(Cumulative 9 months — full credit to lead manager)

All issues - global*

Firm	Volume $ mils	Market share (%)
1 First Boston/CSFB** (1)	36,217.4	9.8
2 Merrill Lynch (4)	34,355.5	9.3
3 Goldman, Sachs (5)	31,475.8	8.6
4 Salomon (2)	29,908.2	8.1
5 Morgan Stanley (3)	20,368.5	5.5
6 Shearson Lehman (6)	20,347.9	5.5
7 Drexel Burnham (7)	16,792.4	4.6
8 Nomura (8)	15,385	4.2
9 Daiwa (10)	10,167.9	2.8
10 Deutsche Bank (13)	9,917.1	2.7

* All taxable issues, debt and equity, worldwide
** First Boston/Credit Suisse First Boston
Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

All issues - domestic*

Firm	Volume $ mils	Market share (%)
1 Merrill Lynch (3)	29,142.3	14.1
2 Goldman, Sachs (5)	28,554.7	13.8
3 Salomon (1)	26,238.7	12.7
4 First Boston (2)	23,921.9	11.6
5 Shearson Lehman (6)	19,187.2	9.3
6 Morgan Stanley (4)	17,532.6	8.5
7 Drexel Burnham (7)	16,762.4	8.1
8 Prudential-Bache (10)	8,093.6	3.9
9 Bear, Stearns (9)	7,070	3.4
10 PaineWebber (14)	5,297.2	2.6

* All taxable issues, debt and equity, sold in U.S. only
Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

All issues - domestic*

Firm	Volume $ mils	Market share (%)
1 Merrill Lynch (2)	21,991.6	16.4
2 Salomon (4)	17,109.4	12.8
3 First Boston (3)	15,915.5	11.9
4 Goldman, Sachs (5)	15,677.8	11.7
5 Drexel Burnham (6)	13,018.4	9.7
6 Shearson Lehman (7)	12,913.2	9.6
7 Morgan Stanley (1)	11,414.4	8.5
8 Prudential-Bache (12)	3,836.8	2.9
9 Smith Barney (9)	3,056	2.3
10 PaineWebber (15)	3,011	2.3

* All taxable issues, debt and equity, excluding mortgage related and agency issues sold in U.S. only
Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

All debt issues

Firm	Volume $ mils	Market share (%)
1 Goldman, Sachs (5)	26,987.1	15.4
2 Salomon (1)	25,006.3	14.3
3 Merrill Lynch (3)	23,413.4	13.4
4 First Boston (2)	22,415.7	12.8
5 Morgan Stanley (4)	16,306.7	9.3
6 Drexel Burnham (7)	14,466.9	8.3
7 Shearson Lehman (6)	14,431.8	8.2
8 Bear, Stearns (9)	6,913.1	3.9
9 Prudential-Bache (10)	5,778.7	3.3
10 Kidder, Peabody (8)	3,964	2.3

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

Non-investment grade debt

Firm	Volume $ mils	Market share (%)
1 Drexel Burnham (1)	9,626.1	50.2
2 First Boston (2)	2,408.1	12.6
3 Salomon (5)	1,425.9	7.4
4 Morgan Stanley (3)	1,392.3	7.3
5 Prudential-Bache (15)	1,181.7	6.2
6 DLJ (6)	776.3	4
7 Merrill Lynch (4)	685	3.6
8 Smith Barney (11)	498.1	2.6
9 Goldman, Sachs (7)	385.2	2
10 PaineWebber (13)	359.7	1.9

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

Mortgage-related debt

Firm	Volume $ mils	Market share (%)
1 Goldman, Sachs (4)	12,876.8	17.9
2 Salomon (1)	9,129.3	12.7
3 First Boston (2)	7,924.2	11
4 Merrill Lynch (3)	7,090.8	9.9
5 Shearson Lehman (6)	6,256.7	8.7
6 Morgan Stanley (5)	6,118.2	8.5
7 Bear, Stearns (9)	5,718.7	8
8 Prudential-Bache (10)	4,246.8	5.9
9 Drexel Burnham (8)	3,743.9	5.2
10 Kidder, Peabody (7)	2,527.1	3.5

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

Initial public offerings

Firm	Volume $ mils	Market share (%)
1 Merrill Lynch (2)	3,834.3	20.2
2 Shearson Lehman (3)	3,628.3	19.1
3 PaineWebber (9)	2,394.6	12.6
4 Prudential-Bache (8)	2,184.1	11.5
5 Wheat, First Securities (5)	2,150	11.3
6 Alex. Brown & Sons (4)	1,003.7	5.3
7 First Boston (11)	562.8	3
8 Goldman, Sachs (1)	551.6	2.9
9 Drexel Burnham (7)	532.9	2.8
10 Salomon (6)	392.3	2.1

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

Common stock

Firm	Volume $ mils	Market share (%)
1 Merrill Lynch (1)	4,266.3	18
2 Shearson Lehman (3)	4,210.7	17.7
3 PaineWebber (13)	2,461.9	10.4
4 Prudential-Bache (12)	2,314.9	9.7
5 Wheat, First Securities (8)	2,150	9
6 Drexel Burnham (4)	1,631.7	6.9
7 Alex. Brown & Sons (5)	1,118.4	4.7
8 Goldman, Sachs (2)	827.6	3.5
9 Salomon (9)	718.9	3
10 First Boston (7)	578.2	2.4

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

Preferred stock

Firm	Volume $ mils	Market share (%)
1 Merrill Lynch (3)	1,200	22.9
2 First Boston (2)	778	14.8
3 Goldman, Sachs (4)	740	14.1
4 Shearson Lehman (7)	544.7	10.4
5 Kidder, Peabody (6)	534	10.2
6 Salomon (5)	513.5	9.8
7 Morgan Stanley (1)	275	5.2
8 Drexel Burnham (8)	203.9	3.9
9 Smith Barney (NA)	135	2.6
10 DLJ (12)	109.1	2.1

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 3rd qtr. 1987 ranking

Reprinted from Oct. 17, 1988 issue

25 largest banks and trust companies* ranked by tax-exempt assets

Firm	$ millions
Bankers Trust	52,807
J.P. Morgan	51,115
Wells Fargo	50,716
Mellon Bank	42,230
State Street Bank	26,930
Citicorp	17,246
Capital Group	16,968
Chase	15,900
Northern Trust	13,168
Fiduciary Trust	12,744
Trust Co. West	10,306
Chemical	10,039
First RepublicBank	9,992
American Nat'l Chicago	9,763
First Chicago	9,245
Harris Trust & Savings	8,793
First Interstate	8,094
Security Pacific	6,885
AmeriTrust	6,438
Boatmen's Nat'l St. Louis	5,711
Irving Trust	5,341
Fidelity Mgmt. Trust	5,206
ASB	4,983
First Bank System	4,926
PNC	4,911
Total	**410,457**

*Includes subsidiaries' assets
Reprinted from May 23, 1988 issue

25 largest independent investment managers*

Firm	$ millions
GE Investments	19,900
Mitchell Hutchins Inst'l	18,427
Boston Co.	15,572
Miller, Anderson, Sherrerd	14,856
Lehman Mgmt.	11,920
Oppenheimer Capital	11,914
Delaware Investment	11,216
INVESCO Capital	10,602
Scudder, Stevens & Clark	10,495
RCM Capital	9,675
Fischer, Francis, Trees	9,200
Fayez Sarofim	9,160
T. Rowe Price	8,705
Sanford C. Bernstein	8,600
Wellington Mgmt./TDP&L	8,523
Criterion Investment	8,432
Morgan Stanley Asset	8,292
Lazard Freres	7,550
Lincoln Capital	7,388
BEA Associates	7,206
Batterymarch Financial	6,748
Neuberger & Berman	6,581
Brown Brothers Harriman	6,406
Fidelity Mgmt. & Research	6,000
Capital Supervisors	5,852
Total	**249,220**

*Excludes bank and insurance company subsidiaries
Reprinted from May 23, 1988 issue

25 largest insurance companies* ranked by tax-exempt assets

Firm	$ millions
Prudential	77,841
Equitable	56,430
Metropolitan Life	52,506
Aetna Life	40,586
The New England	31,452
Travelers	27,522
CIGNA	21,705
Pacific Mutual	20,149
The Principal	18,216
John Hancock Financial	17,797
New York Life	16,710
Mass Mutual Life	9,300
MONY Financial	8,240
Marsh & McL. (Putnam)	7,361
VALIC	7,064
Transamerica Investment	6,188
Mutual Benefit Life	5,530
Great-West Life	5,500
Liberty Mutual (Stein Roe)	5,266
Provident Nat'l Assurance	4,951
Nationwide Life	3,934
UNUM Life	3,841
Continental Assurance	3,721
N west Nat'l (Wash. Sq.)	3,699
Hartford Life	3,336
Total	**454,854**

*Includes subsidiaries' assets
Reprinted from May 23, 1988 issue

Summary of voting results of 1988 shareholders

	Georgeson: Voting for proposal as a % of: Votes cast with abstentions	Georgeson: Voting for proposal as a % of: Votes outstanding no abstentions	IRRC: Voting for proposal as a % of: Votes cast no abstentions
Shareholder rights			
Consolidated Freightways	42.4	34.8	45.8
Allied-Signal	31.5	24.5	32.6
Panhandle Eastern	34.8	27.9	37.4
Sonat	27.8	20.5	31.3
MCA	21.7	17.5	26.3
Kerr McGee	38.8	29.9	45.5
USAir	47.7	34.4	51.9
Coleman	35.4	25.8	35.7
Dayton Hudson	47.5	28.1	48.4
United Technologies	28.6 (28.3)	23.7 (24.3)	33.5 (32.9)
Great Northern Nekoosa	43.7 (43.7)	32.2 (28.6)	47.0 (40.2)
Pitney Bowes	28.8 (32.6)	21.5 (23.9)	32.5 (32.6)
Emery Air Freight	38.7 (33.9)	20.3 (26.0)	39.3 (41.4)
International Paper	25.7 (26.3)	15.1 (18.7)	27.0 (27.7)
Champion International	23.6 (30.7)	18.9 (19.9)	28.2 (33.2)
Upjohn	30.0 (34.5)	21.1 (26.8)	31.1 (40.0)
AMR	40.5 (37.9)	29.6 (27.4)	45.9 (45.9)
Santa Fe Southern Pacific	59.1 (20.1)	49.1 (14.0)	61.2 (20.1)
J.C. Penney	32.7 (31.6)	27.0 (25.3)	35.2 (31.5)
Confidential voting			
Honeywell	17.1	13.0	20.1
Manufacturers Hanover	9.9	8.2	13.1
Champion Spark Plug	7.3	5.7	7.3
Phelps Dodge	28.1	18.8	27.9
Ryder Systems	22.0	18.2	25.3
Lockheed	16.2	12.7	19.3
American Home Products	9.4	7.4	11.9
Santa Fe Southern Pacific	28.9	24.1	29.9
Upjohn	14.3	10.0	14.8
Equal access			
Bank of Boston	6.8	5.6	7.6
Unocal	11.0	8.9	11.6
Amoco	8.0	6.3	8.3
Chevron	6.8	4.9	7.1
Texaco	NA	NA	NA
Mobil	NA	NA	9.3
Anti-greenmail			
CBS	7.0	4.6	7.0
General Motors	19.4	14.3	22.1
Tenneco	19.2	15.5	28.2
Gillette	54.6	41.1	55.7
J.C. Penney	27.2	22.4	34.0

Numbers in parenthesis indicate 1987 figures.

Reprinted from *Pensions & Investment Age*, June 27, 1988

Top 50 managers ranked by total U.S. tax-exempt assets in global accounts (as of March 31)

	($ millions)		($ millions)
Templeton International	2,076	N.M. Rothschild	59
Batterymarch	944	Lombard Odier	57
WorldInvest	735	Alliance Capital	23
PCM International	567	Walter Scott	20
Warburg Investment	533	ABD International	16
Rowe Price-Fleming	446	Brown Brothers Harriman	15
Fiduciary Trust*	444	G.T. Capital	15
Morgan Grenfell	409	SBC Portfolio Mgmt.	13
J.P. Morgan	290	Nomura Capital	11
State Street Bank	278	Hill Samuel/Investment Advisers	3
Posthorn Global	276	American National Bank	0
Fidelity International	275	Baring International	0
Capital Guardian	243	Bessemer Group*	0
Beutel, Goodman	241	Arnhold & S. Bleichroeder	0
Citicorp Investment	205	Boston Co.	0
Massachusetts Financial	175	Boston International	0
Wertheim-Philippe	171	Capital Mgmt. International	0
Bankers Trust	147	Chase Investors	0
Schroder Capital	136	Daiwa International	0
Martin Currie	125	Grantham Mayo Van Otterloo	0
Wells Fargo	121	Kemper-Murray Johnstone	0
IDS International	118	Mellon-Pictet	0
First Chicago	116	Oechsle International	0
Julius Baer	114	Putnam Advisory	0
Scudder, Stevens & Clark	73	Wellington International	0
		TOTAL	**9,490**

* As of Dec. 31, 1987

Reprinted from June 27, 1988 *Pensions & Investment Age*

Top 50 managers ranked by total U.S. tax-exempt assets in international and global accounts

	($ millions)		($ millions)
State Street Bank	4,031	Bankers Trust	607
J.P. Morgan	2,726	Alliance Capital	602
Capital Guardian	2,701	IDS International	566
Morgan Grenfell	2,684	Scudder, Stevens & Clark	565
First Chicago	2,314	Fiduciary Trust*	560
Templeton International	2,076	Kemper-Murray Johnstone	498
Rowe Price-Fleming	2,057	Daiwa International	481
Grantham Mayo	1,981	ABD International	359
Batterymarch	1,960	Arnhold & S. Bleichroeder	320
Baring International	1,902	Capital Mgmt. International	261
Fidelity International	1,825	Martin Currie	260
Schroder Capital	1,736	Chase Investors International	250
WorldInvest	1,424	SBC Portfolio Mgmt	249
Warburg Investment	1,324	Wellington International	245
N.M. Rothschild	1,221	Beutel, Goodman	241
Nomura Capital	1,141	Putnam Advisory	239
PCM International	985	Walter Scott	237
Wells Fargo	971	Hill Samuel/Invest. Advisers	228
Citicorp Investment	806	American National Bank	221
Oechsle International	743	Lombard Odier	217
Posthorn Global	672	Bessemer Group*	190
Brown Brothers Harriman	646	Boston International	181
G.T. Capital	628	Massachusetts Financial	175
Mellon-Pictet	611	Wertheim-Philippe	171
Julius Baer	610	Boston Co.	167
		TOTAL	**47,865**

* As of Dec. 31, 1987

Reprinted from June 27, 1988 *Pensions & Investment Age*

Top 50 managers ranked by total U.S. tax-exempt assets in international accounts (as of March 31)

	($ millions)		($ millions)
State Street Bank	3,753	Daiwa International	481
Capital Guardian	2,458	Bankers Trust	460
J.P. Morgan	2,436	IDS International	448
Morgan Grenfell	2,275	PCM International	418
First Chicago	2,198	Posthorn Global	396
Grantham Mayo	1,981	ABD International	343
Baring International	1,902	Arnhold & S. Bleichroeder	320
Rowe Price-Fleming	1,611	Capital Mgmt. International	261
Schroder Capital	1,600	Chase Investors	250
Fidelity International	1,550	Wellington International	245
N.M. Rothschild	1,162	Putnam Advisory	239
Nomura Capital	1,130	SBC Portfolio Mgmt.	236
Batterymarch	1,016	Hill Samuel/Invest. Advisers	225
Wells Fargo	850	American National Bank	221
Warburg Investment	791	Walter Scott	217
Oechsle International	743	Bessemer Group*	190
WorldInvest	689	Boston International	181
Brown Brothers Harriman	631	Boston Co.	167
G.T. Capital	613	Lombard Odier	160
Mellon-Pictet	611	Martin Currie	135
Citicorp Investment	601	Fiduciary Trust*	116
Alliance Capital	578	Beutel, Goodman	0
Kemper-Murray Johnstone	498	Massachusetts Financial	0
Julius Baer	496	Templeton International	0
Scudder, Stevens & Clark	492	Wertheim-Philippe	0
		TOTAL	**38,374**

* as of Dec. 31, 1987

Reprinted from June 27, 1988 *Pensions & Investment Age*

HOT MANAGERS

Most new accounts - 1988

1st quarter

Firm	
Union Labor Life Insurance	6
HGM Associates	4
Avatar Associates	3
Equitable Real Estate	3
Metropolitan Life	3
JMB Institutional Realty	3
WorldInvest	3

Reprinted from April 4, 1988 *Pensions & Investment Age*

2nd quarter

Firm	
First Chicago Investment	9
Security Capital Real Estate	7
Harris Trust	5
Trust Co. of the West	5
Miller, Anderson & Sherrerd	4
J&W Seligman	4

Reprinted from July 11, 1988 *Pensions & Investment Age*

3rd quarter

Firm	
Wells Fargo	6
Copley Real Estate	5
First Chicago	4
The Common Fund	4
Invexco	4

Reprinted from Oct. 3, 1988 *Pensions & Investment Age*

Most new assets - 1988

1st quarter

Firm	$ mils.
HGM Associates	185
Equitable Life Assurance	180
TCW Asset Management	170
Fidelity Management Trust	90
J&W Seligman	80
JMB Institutional Realty	68
Boston Co.	60
Equitable Real Estate	55

Reprinted from April 4, 1988 *Pensions & Investment Age*

2nd quarter

Firm	$ mils.
Bankers Trust	189
Wells Fargo	160
Morgan Stanley	140
Denver Investment	130
Nomura Capital	125
Oechsle International	120

Reprinted from July 11, 1988 *Pensions & Investment Age*

3rd quarter

Firm	$ mils.
State Street Bank	1,250
Wells Fargo	660
First Investment	650
Baring International	515
Warburg	500
Fiduciary Trust	500

Reprinted from Oct. 3, 1988 *Pensions & Investment Age*

Real estate investment advisers ranked by tax-exempt assets

		Tax-exempt assets ($ mils.)				Total assets ($ mils.)			
		Total	Equity	Hybrid debt	Mortgages	Total taxable/ tax-exempt	Equity	Hybrid debt	Mortgages
1	Copley Real Estate Advisors **	8,698	8,698	—	—	12,099	12,099	—	—
2	Equitable Real Estate Investment Mgmt	8,318	7,712	169	437	33,705	22,683	1,804	9,218
3	JMB Institutional Realty	6,800	6,800	—	—	21,500	21,500	—	—
4	Prudential Realty Group	5,171	4,740	220	211	37,813	14,695	220	22,898
5	Heitman Advisory	4,881	4,881	—	—	5,153	5,153	—	—
6	Aetna Life and Casualty	4,689	3,505	1,130	54	26,823	4,857	1,130	20,836
7	RREEF	3,072	3,072	—	—	3,495	3,495	—	—
8	Aldrich, Eastman & Waltch	2,573	545	1,800	228	2,645	617	1,800	228
9	Boston Co. Real Estate Counsel	2,390	660	1,730	—	2,390	660	1,730	—
10	Richard Ellis	2,381	2,175	206	—	5,067	4,861	206	—
11	F.I.A. Associates	2,340	1,167	1,012	161	2,340	1,167	1,012	161
12	TCW Realty Advisors	2,285	1,832	453	—	2,285	1,832	453	—
13	LaSalle Advisors	2,216	2,216	—	—	2,216	2,216	—	—
14	Corporate Property Investors	2,151	2,151	—	—	3,679	3,679	—	—
15	Balcor Institutional Realty Advisors	1,852	353	1,499	—	7,000	5,000	2,000	—
16	CIGNA Asset Advisers	1,728	1,470	258	—	12,790	2,613	258	9,919
17	J.P. Morgan Investment Mgmt.	1,344	377	967	—	1,475	404	1,071	—
18	McMorgan	1,300	400	100	800	1,300	400	100	800
19	Lehndorff & Babson Real Estate Counsel	1,253	1,253	—	—	2,400	2,400	—	—
20	Mellon Real Estate Investment Mgmt.	1,220	586	385	249	1,220	586	385	249
21	Sentinel Real Estate	1,218	1,218	—	—	1,436	1,436	—	—
22	Latimer & Buck	1,213	—	562	651	1,213	—	562	651
23	Jones Lang Wootton Realty Advisors	1,200	800	400	—	1,200	800	400	—
24	First Chicago Investment Advisors	995	983	—	12	1,039	1,027	—	12
25	Coldwell Banker Capital Mgmt. Services	968	925	43	—	968	925	43	—
26	Lomas Advisors	925	—	755	170	925	—	755	170
27	O'Connor Group	902	797	105	—	1,170	1,065	105	—
28	Alex. Brown Realty Advisors	882	40	813	29	1,284	40	1,215	29
29	Wells Fargo Realty Advisors	850	219	296	335	971	340	296	335
30	L.J. Melody	838	—	453	385	1,992	—	665	1,327
31	PSI Institutional Realty	812	812	—	—	2,400	2,400	—	—
32	Kennedy Associates Real Estate Counsel	796	486	291	19	796	486	291	19
33	Metropolitan Life	774	714	—	60	23,920	9,364	—	14,556
34	Property Capital Associates	770	770	—	—	770	770	—	—
35	Eastdil Realty	765	705	27	33	1,090	705	27	358
36	First Wachovia	708	602	39	67	708	602	39	67
37	MIG Realty Advisors	705	369	224	112	705	369	224	112
38	NCNB National Bank	629	537	92	—	629	537	92	—
39	Citicorp Investment Mgmt.	628	278	34	316	773	423	34	316
40	First Interstate Mortgage	585	35	50	500	585	35	50	500
41	John Hancock Properties	570	570	—	—	2,139	2,139	—	—
42	Karsten Institutional Realty Advisors	565	468	6	91	767	670	6	91
43	Cabot, Cabot & Forbes Realty Advisors	500	500	—	—	500	500	—	—
44	August Am Cal Advisors	465	186	—	279	871	250	—	621
45	State Street Bank and Trust *	455	213	139	—	455	213	139	—
46	Travelers	449	405	—	44	19,803	1,569	—	18,234
47	McMahan Real Estate Advisors	438	329	109	—	556	417	139	—
48	Union Labor Life Insurance	413	—	—	413	887	—	—	887
49	Schroder Real Estate Associates	411	411	—	—	1,300	1,294	—	6
50	Chesterton International	383	288	91	4	383	288	91	4

Reprinted from PROPERTY, *Pensions & Investment Age*, Sept. 19, 1988

Top 10 real estate managers ranked by tax-exempt assets in:

Real estate equity

	$ millions
Copley Real Estate*	8,698
Equitable Real Estate	7,712
JMB Institutional	6,800
Heitman Advisory	4,881
Prudential Realty	4,740
Aetna	3,505
RREEF	3,072
LaSalle Advisors	2,216
Richard Ellis	2,175
Corporate Property Investors	2,151
TOTAL	**45,950**

Data as of March 31, 1988

Hybrid debt

	$ millions
Aldrich, Eastman & Waltch	1,800
Boston Co. Real Estate	1,730
Balcor Institutional	1,499
Aetna	1,130
F.I.A. Associates	1,021
J.P. Morgan Investment	967
Alex. Brown Realty	813
Lomas Advisors	755
Latimer & Buck	562
TCW Realty Advisors	453
L.J. Melody	453
TOTAL	**11,174**

Mortgages

	$ millions
McMorgan	800
Latimer & Buck	651
First Interstate Mortgage	500
Equitable Real Estate	437
Union Labor Life	413
L.J. Melody	385
Wells Fargo Realty	335
ASB Capital	324
Citicorp	316
August-Am Cal	279
TOTAL	**4,440**

Reprinted from PROPERTY, Sept. 19, 1988 *Pensions & Investment Age*

Foreign institutional assets managed by U.S. firms in U.S. markets

($ millions - as of March 31, 1988)

	Non-U.S. assets	Equity	Fixed	Balanced	Real estate	Other	Total assets
J.P. Morgan Investment Mgmt.	11,469	3,674	223	6,774	494	304	54,741
Citicorp Investment Mgmt.	7,786	2,008	311	4,502	150	815	13,160
Chase Investors Mgmt.	4,882	555	1,031	752	2,497	47	22,172
Morgan Stanley Asset Mgmt.	3,709	2,103	1,015	489	—	102	14,188
Richard Ellis	2,700	—	—	—	2,700	—	3,606
Bankers Trust	2,647	837	1,361	241	—	208	79,369
Fischer, Francis, Trees & Watts	2,200	—	2,200	—	—	—	12,200
Chemical Investment Group	2,192	60	1,841	—	—	291	14,951
Alliance Capital Mgmt.	1,985	1,695	9	281	—	—	32,332
Prudential Asset Mgmt.	1,155	116	361	36	636	6	174,700
Batterymarch Financial Mgmt.	1,132	1,132	—	—	—	—	8,676
INVESCO MIM Int'l	1,130	660	180	250	—	40	30,850
Merrill Lynch Asset Mgmt.	1,046	366	262	418	—	—	81,000
Capital Group	939	771	13	—	—	155	36,298
Manufacturers Hanover Trust	932	—	767	165	—	—	9,200
State Street Bank and Trust	912	803	—	—	—	109	32,100
Schroder Real Estate Associates	825	—	—	—	825	—	1,300
Wells Fargo Investment Advisors	765	765	—	—	—	—	56,080
Scudder, Stevens & Clark	535	44	62	429	—	—	37,000
Atlanta Capital Mgmt.	508	26	19	463	—	—	1,483
First Boston Asset Mgmt.	484	50	434	—	—	—	4,500
Irving Trust	427	27	105	—	—	299	7,024
Confederation Life	385	385	—	—	—	—	9,000
Mitchell Hutchins	383	20	260	103	—	—	36,905
Rosenberg Institutional Equity Mgmt.	284	284	—	—	—	—	2,251
Travelers Asset Mgmt. Int'l	270	—	270	—	—	—	938
Equitable Real Estate Investment	256	—	—	—	256	—	29,553
Fiduciary Trust Co. Int'l	230	2	76	152	—	—	15,500
Templeton Int'l	208	208	—	—	—	—	12,485
Roll and Ross Asset Mgmt.	200	150	50	—	—	—	2,500
Dewey Square Investors	199	—	42	157	—	—	3,600
BEA Associates	176	66	58	52	—	—	7,495
Burgess Capital	145	145	—	—	—	—	185
Miller, Anderson & Sherrerd	145	145	—	—	—	—	15,227
IDS Advisory Group	121	87	34	—	—	—	6,143
Lazard Freres Asset Mgmt.	109	81	—	28	—	—	9,792
Other	1,090	710	145	226	—	9	205,523
TOTAL	**54,561**	**17,971**	**11,129**	**15,518**	**7,558**	**2,385**	**1,084,027**

Reprinted from *Pensions & Investment Age*, Aug. 22, 1988

IRS grants reprieve

Time for integration revisions extended

By Jerry Geisel

Crain News Service

WASHINGTON — Employers will be given more time to amend their pension plans to comply with the Internal Revenue Service's massive pension integration rules.

As expected, the IRS came through with its relief in the face of protests from employers and benefits consultants (*Pensions & Investment Age*, Dec. 12).

An employer may wait until the end of 1989 to make the changes needed to bring its pension plan in compliance with the IRS' integration rules if the company adopts one of several stopgap plan amendments proposed by the IRS in mid-December.

The integration rules, which implement provisions of the Tax Reform Act of 1986, will force tens of thousands of employers nationwide to scrap decades-old pension integration formulas — which are used to calculate how companies may coordinate or integrate their pension plans with Social Security — and adopt new formulas to calculate retirement benefits earned after Jan. 1.

Under one of the stopgap amendments, an employer could wait until as late as Dec. 31, 1989, to make permanent plan design changes.

Those changes could then be made retroactive for benefits accrued from Jan. 1.

Even if the new, permanent integration formula produced smaller benefits than the formula now used by the plan, the employer would not be deemed to have violated a federal law that bars cutbacks in accrued pension benefits.

In addition, an employer could adopt the stopgap amendment without having to provide the 15-day advance notice to pension plan participants that usually is required when the employer seeks to reduce future benefits, the IRS said in Notice 88-131, released two weeks ago.

Other options offered by the IRS include allowing employers to freeze benefit accruals for all plan participants or allow non-highly compensated employees to accrue benefits during 1989 under its old integration formula or under the formula it later adopts, whichever produces the larger benefit.

Benefit experts are welcoming — up to a point — the relief offered by the IRS.

"This notice provides genuine relief," said Larry Sher, a partner with benefit consultant Kwasha Lipton in Fort Lee, N.J.

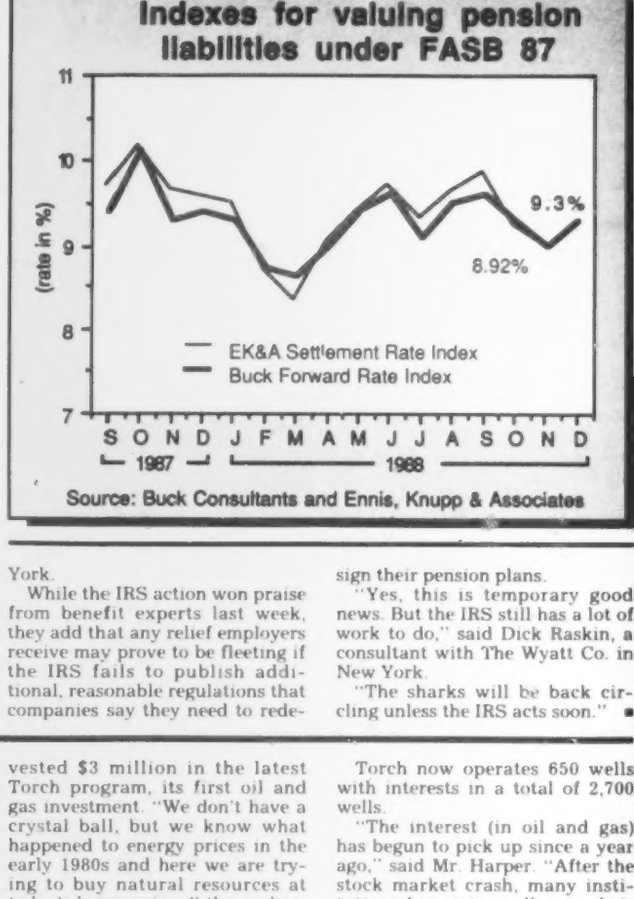
"It gives companies more time so they can redesign their pension plans carefully and intelligently," he added.

"The IRS notice gives employers the flexibility that they were looking for," said John Feldtmose, president of benefit consultant A. Foster Higgins & Co. Inc. in New York.

While the IRS action won praise from benefit experts last week, they add that any relief employers receive may prove to be fleeting if the IRS fails to publish additional, reasonable regulations that companies say they need to redesign their pension plans.

"Yes, this is temporary good news. But the IRS still has a lot of work to do," said Dick Raskin, a consultant with The Wyatt Co. in New York.

"The sharks will be back circling unless the IRS acts soon." ■



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Oil, gas heating

Continued from page 1

ments in an effort to reach a target asset allocation of about 2%, he said.

"We are in primarily for diversification purposes," said Mr. Smith. "If you look at the long term, the United States is going to have problems getting enough oil. It's not like buying stock. You can't . . . pick up the phone and buy some. Now is a good time, in our view, to invest."

The positive long-term outlook for natural gas prices and the fact Torch invested its own money in the deal were contributing factors to the GE fund's decision, he noted.

According to W.R. Pickering, executive vice president of Torch, the firm provided about 25% of the assets in each of the previous deals, approximately the same level as GE.

"We know some of the Torch people and their track record is good. Where they are investing with you, you feel a lot better about getting involved with them," Mr. Smith added.

He said the objective of oil and gas investments at GE "is to get a return competitive with long-term Treasury instruments."

Torch's willingness to put its money where its mouth is also impressed a large Midwestern foundation, whose spokesman asked it not be identified. "We liked the major commitment an organization makes of its own money," said the spokesman.

"I think that they (Torch) are good operators and choose their product well. Philosophically, our foundation investment committee, in the interest of further diversification, felt we ought to have investments in areas such as natural resources." The foundation invested $3 million in the latest Torch program, its first oil and gas investment. "We don't have a crystal ball, but we know what happened to energy prices in the early 1980s and here we are trying to buy natural resources at today's lower prices," the spokesman said.

The foundation is anticipating returns, he said, "of something better than a good bond proxy." As in Torch's previous efforts, the newest program is oriented toward natural gas production, which is seen as more economically favorable to investors in coming years.

"Our emphasis is on natural gas; we are not doing exploration drilling. We've already seen a 15% to 20% increase (in gas prices) over this time last year to about $1.85 per thousand cubic feet. By the end of February we could see $2.30," said Mr. Harper.

He said the Torch program will concentrate its efforts in the Gulf Coast and mid-continent regions of the United States.

Torch now operates 650 wells with interests in a total of 2,700 wells.

"The interest (in oil and gas) has begun to pick up since a year ago," said Mr. Harper. "After the stock market crash, many institutions began to reallocate their portfolios. I've found pension funds (previously) when oil and gas is mentioned wouldn't talk to you and are now at least willing to sit down and listen. We are now starting to get inquiries by the consulting community on behalf of clients interested in oil and gas. We're seeing now much more interest and open-mindedness on behalf of clients interested in making direct oil and gas investments," he said.

Mr. Harper said the deals have a 1% organization fee to Torch to cover formation of the partnership, a 1.5% fee based on invested capital in the first two years of the program, 1% in the third year and then declining 20% each subsequent year of the program. ■

A rosy outlook

Continued from page 3

many things can be done, but there is a political problem, he said. Also, the dollar probably has to be pushed down and that will boost inflation.

Lawrence A. Kudlow, chief economist and senior managing director at Bear Stearns & Co., New York, who predicted a 3.6% first-half GNP growth rate and a 1.9% second-half growth rate, said: "We called this our soft landing scenario."

The economy has a strong capital goods export sector, and that is expected to continue into early 1990, Mr. Kudlow said.

The GNP forecast is influenced by the end of the drought effect, which the Department of Commerce has hinted will be added into first-quarter numbers, Mr. Kudlow said. He estimates the end of the drought to account for 1.5% of GNP.

His first-quarter estimate is 4.6% for GNP growth, while the underlying figure really is about 3%.

"Beyond the first quarter, we do see a pronounced slowdown," he said, predicting GNP growth of 1.8%, 2% and 1.8% for the second, third and fourth quarters respectively.

"I think interest rates will go up more in the first quarter," he said. "The Fed funds rate might go as high as 9.5% (from less than 9% now). The discount rate will go to 7.5% to 8%. I don't see a credit crunch.

"The risk is that the Treasury might try to further depreciate the dollar in order to stimulate exports." That could lead to higher interest rates, higher inflation and more Fed tightening and ultimately a recession, he said.

Mr. Kudlow, formerly chief economist at the federal Office of Management and Budget in the Reagan administration, also thinks the Bush administration will place more budget deficit control in 1990 and '91. The bulk will be on the spending side, although some might come from "sin" taxes.

Robert Chandross, chief economist at Lloyds Bank in North America PLC, New York, sees further improvement in the trade balance. At least in the first half, there should be continued healthy growth in consumer spending, at 2.5%, while capital spending growth will be around 5% to 5.5% for the year.

His forecast essentially includes some problems in the foreign exchange market as it reacts to inaction on the federal budget and persistently high trade deficit.

He also doesn't expect the Bush administration to improve the federal budget situation until next summer.

Mr. Chandross sees bond rates moving higher, at least in the first half. To get the bond rates on a declining trend, there would need to be a substantial increase in rates in the first half, he said.

Equity markets thus will see higher yields on competing instruments.

No easy solution exists for the federal budget deficit. "The risk is that the dollar will be vulnerable," he said. It could drop to the 112 to 115 range against the yen, making markets skittish.

Mr. Levine said his projection of 6.4% first-half GNP growth includes 1.4 percentage points because of the end of the drought.

Henry Gailliott, president of Federated Investment Counseling Inc. and chief economist of Federated Research Corp., Pittsburgh, is one economist who believes a recession will begin in 1989.

"The recession will be centered in the consumer area because it is the one sector that is overdone," he said. "You have a consumer who should have died about a year or so ago, and you have everyone else who looks about middle age. Investment, inventories, capital spending, exports, government at all levels, are not really extended."

Mr. Gailliott noted the consumer would not have to stop spending to cause a recession. "For example, if he chooses to spend 97% of his income instead of 103%, we have an instant recession."

Georges Rocourt, economist at Ganz Capital Management, North Miami Beach, Fla., said the greatest danger to the economy is too serious a dose of fiscal responsibility. "I can't bring myself to believe that the deficit is that massive a problem," he said, especially when as a percentage of GNP it is not out of line with the deficits of other countries.

Mickey Levy, senior vice president at Fidelity Bank, Philadelphia, believes the greatest danger to the economy is a possibility the Federal Reserve Board would overestimate the strength of the economy and tighten too much, leading to a crash.

According to Claremont Economics' Ms. Allen, the two biggest dangers are a saving rate that is too low and too great a belief that reducing the federal deficit is going to cure all the problems. ■

Voting

Continued from page 1

"Several of our clients have called and asked what they can do. We said we would talk to Shearson. I asked them to amend the proposal to preserve the voting rights," Mr. Monks said.

One idea under discussion is creating a voting trust that would be assigned all the voting rights. An independent trustee would be appointed to poll unitholders and cast the ballots according to their wishes.

Another idea is monetary compensation for the voting rights, although Mr. Monks said it is a very tough concept to develop.

Earlier this month, Shearson Lehman Hutton developed a plan under which four companies — American Express Co., Pfizer Inc., The Dow Chemical Co., and Sara Lee Corp. — would offer shareholders three new component securities in exchange for common stock.

Institutional investors were not very receptive to the idea and cited lack of voting rights as the major obstacle (*Pensions & Investment Age*, Dec. 12).

Because institutional stakes in corporate America are so large, Shearson Lehman Hutton will have to persuade these major buyers the new securities are attractive.

Shearson Lehman Hutton's Mr. Gallatin acknowledged talking with Mr. Monks about the voting trust and several other ideas. He pointed out, however, the three securities are mainly debt, and debt securities do not have a vote. It is inappropriate for a debtholder to have a vote, he added.

Mr. Gallatin stressed that while he respects the concerns institutional investors have about voting rights, "the exchange offer should be viewed as a repurchase. After these shares are repurchased, residual outside shareholders will still be in total control of the company."

He added issuers of the unbundled units will be limited to companies where control is not an issue.

Some advisers to institutional investors and investors themselves questioned whether these hybrid securities would be appropriate investments for funds under the Employee Retirement Income Security Act. These concerns are expected to be raised with the Department of Labor, which regulates ERISA funds, and the Securities and Exchange Commission, which is reviewing the Shearson Lehman Hutton plan.

The idea of compensation for the loss of voting rights and the possible birth of a voting rights market are re-emerging after years on the back burner.

At a recent proxy voting conference in New York hosted by the Institute for International Research, the idea of renting or selling voting rights was revived by John R. LeClaire, an attorney with Goodwin, Procter & Hoar, Boston.

While no market for voting rights has emerged, the idea has been around for several years, promoted by money managers like Dean LeBaron, trustee of Batterymarch Financial Management, Boston, (*P&I Age*, Feb. 18, 1985).

Proponents say the creation of a market for voting rights would unlock the voting power inherent in equity securities, reduce conflicts of interests faced by pension managers and increase shareholder wealth by permitting fluid transfers of corporate power. Opponents argue detached voting rights would create economic inefficiency, lead to harmful self-dealing and contravene established democratic principles. ■

Bank to sell bonds at loss

MINNEAPOLIS — First Bank Systems Inc. will sell $4.6 billion in book value Treasury and government agency securities during the next three months but expects it to have no impact on prices in the market, according to its chairman.

The bank holding company expects to lose about $500 million in the sale.

With the sale, First Bank will also end an expensive hedge, begun in late 1987 and designed to prevent further losses to the portfolio. The hedge has cost more than $20 million to maintain in past year.

"We have a team of people inside the company who are handling" the sale, said DeWalt H. "Pete" Ankeny Jr., First Bank's chairman, president and chief executive officer.

Mr. Ankeny said First Bank turned down a number of investment banking companies seeking to manage the sale. He declined to name them. He said the bank had some preliminary advice before the decision to sell. "But we aren't really seeking consultative advice," he added.

The securities are the company's own assets and don't involve trust assets managed by First Asset Management, First Bank's money management unit.

"We plan to have them (the bonds) sold by the end of the first quarter," he said.

He expects the $4.6 billion in securities, which have an average maturity of 11 years, to realize about $4.1 billion — a $500 million loss. He said First Bank will use the proceeds to repay the short-term loans used to fund the highly leveraged portfolio. "So we will shrink the balance sheet by that amount or a little more," he added, reducing total assets to $23 billion.

"It was the maturity, not the size of the portfolio, that was the issue" or reason for the losses, said Donald K. Crowley, analyst with Keefe Bruyette & Woods Inc., San Francisco.

Claire M. Percarpio, financial analyst with Duff & Phelps Inc., Chicago, knew of no other bank with similar troubles. Although some have relatively large portfolios, she said none has taken such an aggressive investing strategy.

Mr. Ankeny doubted the sale would have an impact on reducing prices further. "A significant portion (well over 50%) are hedged so they aren't subject to price volatility," he added.

The hedge notwithstanding, analysts and institutional investors said the sale should not affect the market.

"They're selling (largely) long-term Treasury bonds," said George Reagan, equity portfolio manager for the Texas Teacher Retirement System, Austin, which held 1.1 million shares of First Bank stock as of Sept. 30.

"That's usually a fluid market. I don't see where that would have much affect on the market."

The sale will reduce by nearly two-thirds the bank holding company's fixed-income portfolio, currently having a book value of $7.5 billion. It also will formally end its aggressive speculation in the securities market.

The bank will retain a portfolio of $2.9 billion, more than 25% of that in tax-exempt securities. The remaining securities are about $80 million below book value.

"To our knowledge we're the only ones (among large banking companies) with a portfolio of this relative size and with this devaluation problem," said Mr Ankeny.

"Percentagewise, I think it was the largest in the top 50 banks in the country" at about 28%, he said. After the sale, it will total about 12%, he added.

The bank's portfolio has been under water, or below book value, since 1987. In early October of that year, just before the stock market fell, Mr. Ankeny said First Bank decided to hedge the portfolio to prevent further losses because it appeared interest rates would continue to rise. At the end of September 1987 the portfolio was $640 million under book value, he added.

Since then a large portion of the portfolio — Mr. Ankeny would say only it was more than 50% — has been hedged.

Mr. Ankeny said the bank didn't sell off the portfolio in October 1987 once it decided to end its aggressive investment strategy because it hoped interest rates would decline. "We felt there was a reasonable probability that by managing the portfolio and gradually lifting the hedging . . . we could get the devaluation down (or eliminated) without taking a big loss," he said.

The hedge succeeded in preventing further losses since then, he said, although it also kept the portfolio from taking advantage of the appreciation in bond prices following the drop in interest rates after the stock market crash.

In addition, he said the hedge was costly, reducing the effective book yield on the portfolio to 6.9% from 7.4%.

He said the anticipated economic costs, risk and other implications associated with the portfolio hedging could not be justified to continue the hedge.

Despite the loss, Mr. Ankeny said, "I think when ranked over a period of time, the portfolio has added value to FBS shareholders."

"We took $500 million in gains out of the portfolio in the third quarter of 1986," he added.

Dennis E. Evans, who resigned earlier this fall as First Bank's president and chief operating officer, had managed the portfolio. ■

Index funds

Continued from page 1

index fund manager, Wells Fargo gained more than $7 billion in total indexed assets, most of it in domestic fixed income. The firm has $54.7 billion in indexed funds.

Bankers Trust Co. — Investment Management Group, New York, reported the next highest gain — more than $6 billion since April 30, primarily in domestic equity. The firm has total indexed assets of $27.4 billion.

The lower cost of indexing is influencing the move toward international funds, according to managers. As more funds move into international in general, indexing can minimize high trading costs much as it cuts costs in domestic investments.

"Arguments for a passive approach are stronger in international because of lower trading costs," said David Umstead, managing director of Boston International Advisors Inc., Boston.

The lower costs of international indexing also may be a reason more public funds are investing overseas, Mr. Umstead said. Of the $221.5 million in international indexed assets managed by Boston International, $175 million came from public funds in the past 12 months, he said.

Boston International also customizes an index that doesn't weight Japan as heavily as the Morgan Stanley Capital International Europe Australia Far East Index, which is weighting Japan at 60%, Mr. Umstead said. The customized fund has two pension clients with $40 million invested with "six or seven others" interested, he said.

While international index funds apparently are basking in their growth, domestic stock and fixed-income funds continue a no-growth trend that some say began with the market crash.

Growth will result from new products, such as enhanced or structured indexing, which customizes benchmarks and indexes, particularly in fixed income, said Prewitt Lane, executive vice president of Todd Investment Advisors, Louisville, Ky., which managed $223 million in domestic fixed-income indexed assets as of Nov. 30.

Domestic fixed income has slowed as the stock side has picked up, Mr. Lane said, "but we still see a lot of interest in indexing among the larger plans."

International index funds also have their problems. "Because of the difficulty international managers have had in beating the heavy Japanese weighting in the EAFE, they've tried to create new indexes," he said.

The slowed growth for domestic index funds also might be attributed to the increasing popularity of tactical asset allocation, which probably has taken some funds out of indexing and into the hands of the allocators and market timers, Mr. Umstead said.

Top index fund managers

($ millions - as of Nov. 30)

Firm	Total indexed	Domestic equity	Domestic fixed	International
Wells Fargo Investment	54,700	37,300	15,600	1,800*
Bankers Trust	27,421	24,300	2,400	721
Mellon Capital	20,810	18,000	2,500	310
State Street Bank	17,930	11,000	1,930	5,000
American Nat'l Bank/Chicago	10,250	9,000	1,000	250
Alliance Capital	6,000	5,164	236	600
Boston Co.	5,890	3,900	1,800	190
Mellon Bond[1]	5,800	0	5,800	0
Dimensional Fund Advisors	5,020	3,500	1,000	520
GE Investments	3,800	3,800	0	0
Manufacturers Nat'l/Detroit	3,523	3,500	23	0
Wilshire Asset	3,160	3,160	0	0
Chase Investors	2,740	1,400	500	840
Lincoln Capital[2]	2,613	0	2,613	0
Lehman Management	2,600	0	2,600	0
T. Rowe Price	2,225	225	2,000	0
Putnam	2,150	0	2,150	0
Prudential Asset	1,860	681	925	254
Sears Investment	1,561	1,382	0	179
Chancellor Capital	1,046	970	76	0
Northern Trust	1,032	928	54	50*
BEA Associates[2]	965	645	320	0
Mitchell Hutchins	925	352	573	0
Security Capital	925	0	895	30*
WR Lazard[1]	906	0	906	0
AxeCore	850	600	250	0
Vanguard	658	640	18	0
Bernstein-Macaulay	575	575	0	0
MacKay-Shields[1]	570	0	570	0
NCNB Texas	541	341	200	0
Harris Trust	465	425	40	0
ASB Capital[1]	430	430	0	0
Centerre Trust	415	415	0	0
Capstone Asset	391	391	0	0
First Wisconsin	350	250	100	0
Travelers[1]	338	232	24	82
Aetna Capital	300	300	0	0
Fiduciary Trust[1]	300	0	300	0
Associated Capital[1]	224	155	69	0
Todd Investment	223	0	223	0
Boston International	222	0	0	222
Bear Stearns	214	0	214	0
Old Kent Bank	200	200	0	0
Nat'l Bank/Detroit	164	164	0	0
Metropolitan Life	117	117	0	0
Western Asset	110	0	110	0
Advanced Investment[1]	103	0	103	0
Westridge	100	100	0	0
Chemical Investment	85	0	85	0
Keine, Wooters	17	17	0	0

[1] as of May 31 [2] as of Sept. 30 * includes fixed income

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PENSIONS & January 9, 1989

InvestmentAge

The newspaper of corporate and institutional investing $8 an issue - $110 a year

Basil Schwan of the California employees' fund, left, believes LBOs are good if chosen carefully; Wm. Irwin Arbuckle of the Presbyterian Church thinks LBO fees are "a crime."

Managers wary at start of year

By Pete Retzbach

Caution seems to be the watchword for equity managers going into 1989.

Some balanced managers, meanwhile, have shortened maturities, citing an inverted yield curve in which they wouldn't be paid for taking risks.

Interviews by *Pensions & Investment Age* offered several reasons for the wariness: high short-term interest rates; fears of a recession; and confusing signals on the state of the economy.

Few managers interviewed were truly bullish going into 1989, and several saw potential danger signs in the economy.

J. Parker Hall III, president and chief investment officer of Lincoln Capital Management, Chicago, is one of those. "With quality bonds yielding 9% to 10%, that return to us seems attractive in relation to what we see as the long-term return in stocks," Mr. Hall said.

He said Lincoln — which manages about $10 billion in assets, virtually all of it tax exempt — sees equities returning about 10% for 1989. "When there is apparently very little risk premium in stocks over bonds, we say 'why not be a little more cautious?' "

Lincoln's balanced portfolios currently put equities at 50%, with bonds running at 45% and cash at 5%. Aside from having to rebalance the portfolios after the 1987 market crash, Lincoln has maintained the current mix since September 1987. The previous mix, established at the end of 1986, was 60% stocks and 40% bonds.

One firm hot on cash is Lowe, Brockenbrough, Tierney & Tattersall, Richmond, Va. "We think cash is a good substitute for stocks," said Charles C. Field, vice president and director of marketing for the firm, which manages $2.1 billion in tax-exempt assets.

In its discretionary balanced accounts, the firm has a mix of 40% equities, 45% bonds and 15% cash, Mr. Field said, noting the cash component is a little higher than normal. The firm began raising bonds and cash in November.

Lowe, Brockenbrough lowered the boom on equities for several reasons. "We think the equity market has a downside potential of 10% to 15% because of interest rates," Mr. Field said. Other problems, he noted include slow economic growth and a modest increase in inflation. The firm's executives also believe there is little room for expansion of price-earnings multiples, and think corporate earnings will rise only moderately compared with 1988, Mr. Field said.

Deborah Foord, vice president of Berg Capital Corp., New York, sees the inverted yield curve and what she termed the "highly leveraged" position of corporate America as reasons for caution.

Because of the inverted yield curve, where short-term interest rates are higher than long-term rates, and the danger of a recession that often follows an inversion, "we are not inclined to take an extreme stance" on equities, Ms. Foord said.

As for the increasing debt levels in the United States, Ms. Foord said Berg is concerned about "the transition to a slower economy in a highly leveraged environ-

Continued on page 28

Funds unsure of LBO future

By Curtis Vosti

Pension fund executives are skeptical about the immediate future of returns for, and investment in, leveraged buy-out funds.

In a wide array of comments ranging from cautious optimism to uncertainty to downright hostility, most of 11 executives interviewed said the glory days of leveraged buy-outs are past.

"It may not have run its course yet, but its tending in that direction," said Ken Shaffer, state investment officer and portfolio manager for the $3.48 billion Alaska Retirement Systems, Juneau. The systems had been prevented until last year from investing in leveraged buy-outs, and still are studying the potential investment.

"The returns aren't as good and the environment changes," Mr. Shaffer said. "When the next recession comes, a lot of (buy-out) issues will show not to be in as good shape as they thought. And by the time the large state funds jump in in a big way, it's not as attractive as it once was."

Continued on page 31

Riding the M&A wave

Global deal-making the hallmark of '88

By Marcia Parker and Marlene Givant Star

A relentless wave of mergers and acquisitions during the past 12 months reshaped businesses and industries around the world and kept bankers immersed in deal-making activity, helping make 1988 a remarkable year.

Reviews of 15 of the most innovative global deals of 1988 begin on page 24 of this issue of *Pensions & Investment Age*. They comprise the first of a three-part series on The Best Deals of the Year.

Innovation was used as the criterion for this year's best deals. Assembled is a truly global mix — including the $80 million acquisition by Finland's Huhtamaki Oy of Australia and New Zealand-based Lilypak Ltd. — and reflecting the increase in cross-border transactions. These deals cover a wide range of industries and businesses and illustrate the creativity and prowess of an ever-growing cast of deal-makers.

These very competitive financial service industry players include Wall Street investment and commercial bankers, aggressive newcomer boutique firms, foreign merchant banks, insurance companies, the credit affiliates of major companies and pension funds that do deals themselves.

In 1988, the total value of

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The sale of Beatrice International's Latin American food operations — owned by the TLC Group L.P. and handled by Bear, Stearns & Co. — was indicative of the global mergers and acquisitions trend.

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LATE NEWS

SEC asked to delay use of units

NEW YORK — A consulting firm representing institutional investors opposed to the New York Stock Exchange's proposal to allow new non-voting securities to be listed have asked Securities and Exchange Commission Chairman David S. Ruder to reject the plan or extend the comment period prior to the agency's approval.

In a letter to Mr. Ruder, Robert Monks, president of Institutional Shareholder Services Inc., Washington, said the proposal "can lead to widespread disenfranchisement because it can be adopted by large numbers of companies."

The NYSE proposes to list the unbundled stock units recently created by Shearson Lehman Hutton Inc. for American Express Co., The Dow Chemical Co., Pfizer Inc. and Sara Lee Corp. The draft prospectuses are being reviewed by the SEC.

Mr. Monks, in his letter, said the proposal raises "serious questions about the scope" of the one-share, one-vote rule. He also laid out a long list of reasons the proposed securities should be rejected. "The proposed exchange of units for common stock has exactly the coercive effects that led the SEC to adopt the 'one-share, one vote' rule," he argued.

Lynch Asset looking to expand

STAMFORD, Conn. — Lynch Asset Management Co. is enlarging its staff and is "pretty close" to making its first acquisition of a financial services company, according to Sandra Manzke, president and chief executive officer of Lynch.

Lynch, a holding company, also has hired Mary Ann Johnson, former principal of Berg Fiduciary Consultants Inc., Port Chester, N.Y., as president of its consulting subsidiary, Tremont Partners Inc., Stamford. Ms. Manzke, former Tremont president, now becomes chairman of Tremont. Tremont intends to launch more investment products, Ms. Manzke said.

The two women were principals for several years at Rogers, Casey & Barksdale, Stamford. Ms. Manzke left in 1985 to form Tremont, and Ms. Johnson left a year ago to join Berg.

Lynch plans to acquire financial services companies, including investment management firms, in much the same style as United Asset Management Inc., Ms. Manzke said, but the firms acquired will be not be competitors with each other.

Lynch, which acquired Tremont a year ago, also owns Greylyn Financial Corp., Stamford, a marketing firm.

Eberle brothers sing a new tune

CHICAGO — John M. Eberle has left the Chicago office of Jefferies & Co. Inc., where he had been senior vice president and head of its group handling stock repurchasing and corporate investing, to join Chicago Corp. as a senior vice president and manager of institutional equity trading.

In addition, Joseph Eberle, who was a salesman in the same unit at Jefferies, will join Chicago Corp. as a vice president in institutional equity sales, again reporting to his brother. Both are new positions at Chicago Corp. John Eberle will report to Jonathan S. Raclin, senior vice president and manager of institutional equity services.

Frank E. Baxter, Jefferies' president and chief executive officer, said the Eberles left voluntarily. "They're fine individuals," he said. He said their duties would be spread among existing staff at Jefferies.

Volley fired in poison pill debate

NEW YORK — Another skirmish has broken out in the long simmering war between The Analysis Group Inc., Boston, a staunch opponent of poison pills, and Georgeson & Co., New York, an avid supporter of the takeover defense.

The Analysis Group's new critique of Georgeson's latest poison pill study claims it is flawed because the firm uses a fixed period for measuring stock price performance, regardless of when each firm adopted its pill during the measurement period.

George on recently completed its second poison pill study that rebuts critics' arguments that pills have prevented takeovers and otherwise have diminished the value of a company.

The Analysis Group says it broke out stock price performance before and after the adoption of poison pill plans and found that prior to adopting such plans, companies significantly outperform their non-pill peers; after poison pills are adopted corporate performance slips.

N.Y. Teachers fund picks Morley

NEW YORK — The New York City Teachers' Variable Fund B, a $1 billion guaranteed investment contract fund, hired Morley Capital Management, Lake Oswego, Ore., to manage a $40 million discretionary GIC portfolio.

Rogers, Casey & Barksdale, Stamford, Conn., served as consultant in the search.

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Banks sidestepped for custodial duties

By Trudy Ring

A few highly sophisticated institutional investors are bypassing banks as custodians for their assets and going directly to securities depositories, saving money and increasing efficiency in the process.

Depositories' clients typically have been banks and broker-dealers, with the depositories holding securities for accounts managed or held in custody by these entities. That's because most investors don't have the internal expertise to take over the functions typically performed by a custodian or master trust bank.

Depositories provide basic securities clearance and custody services. Most institutional investors rely on master trustee and custodian banks to provide other services, including reconciliation (making sure the investor has the securities it is supposed to have); performance measurement of investment managers; and short-term cash management.

Also, some institutions would need to take on additional personnel or computer capability to handle communications with a depository normally done by the banks that, in turn, communicate with the client.

The $900 million Northwestern University endowment fund, Evanston, Ill., is one investor that deals directly with a depository. Northwestern has used the Midwest Securities Trust Co., Chicago, for several years, said John Borsch, associate vice president-investments. Certain assets (such as venture capital holdings and private placements) that can't be held by the depository are with NBD Trust Co. of Illinois, Evanston, which formerly had custody of the whole fund.

"We thought it would be more efficient in terms of time and money" to go with the depository, Mr. Borsch said. He declined to specify the saving. He added the arrangement eliminates an intermediate step in securities transactions.

Although NBD Trust lost a chunk of business because of Northwestern's arrangement, its president, Chuck Bornarth, said he understood the logic of it. "I thought it made sense for them," he said, noting the expertise of the university's investment staff. "Did I have an objection as a banker? No."

Harvard Management Co., Bos-

Continued on page 30

Merrill Lynch on top

Salomon unseated as No. 1 underwriter

By Marlene Givant Star

NEW YORK — Merrill Lynch Capital Markets soared to stardom in 1988, becoming the top underwriter in the public domestic and global markets.

According to statistics compiled by IDD Information Services Inc., New York, Merrill Lynch rose over Salomon Brothers Inc., which had held the No. 1 domestic position for five years, and past First Boston Corp.'s Credit Suisse First Boston arm, 1987's top global underwriter.

Volume for many equity sectors declined in 1988. But debt sectors — buoyed by restructuring activities — helped boost overall volume of both debt and equity over the previous year.

Globally, volume rose 5% to $483.772 billion from $460.739 billion in 1987. Domestic volume eked up to $273.347 billion from $272.381 billion. Excluding mortgage-related and agency issues, the volume of domestic corporate underwritings declined about 10.7% to $159.968 billion from $179.134 billion.

Mortgage-related debt volume surged almost 18.5% to $96.654 billion from $81.586 billion in 1987.

Standings of top industry players were reshuffled in 1988. 1987's top two underwriters — Salomon Brothers and First Boston — swapped places with the year's third- and fourth-ranked firms — Merrill Lynch and Goldman, Sachs & Co., ranking first and second, respectively, in 1988.

Salomon suffered a considerable shortfall in volume because it left the municipal bond business in 1987, while Merrill Lynch enjoyed $12.8 billion in municipal debt underwritings, said John Keefe, vice president and research analyst for the financial services industry at Drexel Burnham Lambert Inc. Salomon's concurrent exit from the commercial paper business had a minimal effect on the firm, he added.

Merrill Lynch's super debt performance stemmed from its "strong origination and execution capabilities and the best sales and trading capabilities on the Street," said Grant Kvalheim, director of the firm and head of the capital markets desk. In addition, swaps, derivative products, secondary and corporate trading and syndicate and capital markets origination functions all are overseen by the same individual, Mr. Kvalheim said.

Goldman, Sachs also forged ahead from last year's No. 5 spot to take top honors in domestic debt underwriting with $34.03 billion in volume, representing

Continued on page 31

Asset shift for health plans eyed

By Fred Williams

William Quinn of AMR Investment, left, and Tom Tull of LTV, right, both said their companies are considering using surplus pension assets to help fund retiree health liabilities; Roger Wohlert of Southwestern Bell said such a move might hurt pension funds.

Using surplus pension assets to fund the mounting unfunded liabilities associated with retiree medical benefits has strong support from pension fund executives.

With estimates of the total unfunded liability for retiree medical benefits as high as $2 trillion, corporations are faced with the problem of how to fund these costs on an ongoing basis. The Financial Accounting Standards Board is expected to issue in February its long-awaited exposure draft requiring companies to shift to accrual accounting — with its potentially disastrous effects on balance sheets — from the pay-as-you-go system, while the government refuses to grant tax preference to pre-funding retiree medical care.

Corporate pension officials believe using a portion of surplus pension assets remains one of the best way to pre-fund retiree medical costs. And they more optimistic than ever that Congress will pass a bill to allow pre-funding through the use of surplus pension assets.

A 1988 study of large corporate pension plans by the consulting firm Greenwich Associates showed 70% of pension executives favor legislation that would allow them to fund retiree medical benefits from excess pension assets. The same study reported 90% of companies have not yet calculated the present value of their retiree medical liabilities.

Corporate executives contacted by *Pensions & Investment Age* agreed using surplus pension assets might provide an expedient solution to the unfunded liabilities for retiree health care, but many expressed concern that a long-term solution should involve a complete look at health-care programs.

"We're all concerned about the potential liabilities, and we've also got the FASB rules to consider," said William F. Quinn, president of AMR Investment Services, Fort Worth. Mr. Quinn said the unfunded liability for re-

Continued on page 29

Manager stocks beat S&P

Public firms shake off effects of crash

By Carol Wiley

Recovery from the 1987 market crash has been on track for publicly held investment management firms.

Comparisons made by *Pensions & Investment Age* of stock prices for the publicly held money managers show stock prices increased 13.2% overall in the 12 months ended Dec. 27. The average price increase of stocks represented in the Standard & Poor's 500 Stock Index was 12%.

Stock prices for the publicly held management firms increased an average of $1.71 per share during the year ended Dec. 27.

The gainers did well. Of the 21 publicly held money management companies, 14 gained an average of $2.21 per share, or 30.9% overall; the seven that declined lost an average of $3.49 per share, or 16% overall.

The investment management firms "didn't do as well as banks, did better than the insurance companies and lagged the diversified financial service companies," said Frederick Wightman, group vice president and analyst of the financial services industry for Duff & Phelps, Chicago.

Therefore, the money managers' overall 13.2% increase in stock price is "representative" of the financial services industry stock as a whole, Mr. Wightman said.

"It sounds just right," Mr. Wightman said. "There's nothing terribly embarrassing about matching the S&P."

Stock prices of the money-center banks increased a healthy 38%, with regionals up 26%. Diversified financial services companies increased an average of 19%, with companies such as American Express Co. up 16%. Insurance companies ranged from 1% to 18%, depending on category, Mr. Wightman said.

Mr. Wightman said he expects the financial services industry to continue with "good, predictable earnings" through 1989 as the firms go into the second year after the October 1987 market crash.

The largest stock price increase was shown by T. Rowe Price Associates, Baltimore. The firm's stock jumped $12.75 per share, or 60.7%, during the 12-month period, closing at $33.75 on Dec. 27.

The worst performer was Fiduciary Trust Co. International, New York, whose stock price went down $4.75 per share, or 15.8%, to $25.25 on Dec. 27.

-Michael Magdol, chief financial officer for Fiduciary, cited lower earnings as the reason for the stock decline. About 80% of the publicly traded stock is owned by management, he said.

Much of the lagging performance of some management firms can be tied to the mutual fund market in general, which lost 97% in net sales the first nine months of 1988, crashing to $2.1 billion from $78.6 billion for the same time period the year before, said Stephen Gaber, managing director of Mesirow Asset Management, Chicago.

Mr. Gaber predicted the firms' stock performance will hinge on attracting new clients and more assets. That will happen in 1989, he said, but at a much slower rate than in the past, thanks to the market crash.

"1988 was a difficult year for them because it has been difficult to attract new clients since the crash, particularly in active equity management," he said.

"There was a definite slowdown in the mutual fund industry, and most of (the publicly held money management firms) have mutual funds.

"The outlook is that . . . there will be lower p/e ratios because assets under management aren't growing as much anymore."

George Roche, chief financial officer of T. Rowe Price, disagreed with Mr. Gaber's assertion that the slump in the mutual fund industry kept the firms back.

"We are primarily a mutual fund company, too, and I think mutual funds still look good to us," he said.

Mr. Roche said the firm's good earnings, its good earnings outlook and its balance between the management of equity and fixed income indicate stability. "We're coming out of a period of dynamic growth and going into a more normal growth period," he said. ■

Stock prices of publicly held money management firms

Stock	Closing prices Dec. 27, 1988	Dec. 23, 1987	Change
American Capital Mgmt.	8 3/4	2 1/8	+6 5/8
Angeles Corp.	6	5 5/8	+ 3/8
Atalanta/Sosnoff	4 1/4	5 7/8	−1 5/8
Robert C. Brown	5 5/8	4 1/2	+1 1/8
Bull & Bear Group	3 3/4	4 3/4	−1
Colonial Group	12	11	+1
Criterion Group	8	7 3/4	+ 1/4
Dreyfus Corp.	25 1/4	23 7/8	+1 3/8
Eaton Vance	22 1/2	16 1/2	+6
Fiduciary Trust Int'l	25 1/4	30	−4 3/4
First Capital Holdings	6 1/2	7 1/2	−1
Franklin Resources	22 1/4	17 5/8	+4 5/8
Oppenheimer Capital	11 1/4	8 5/8	+2 5/8
Piedmont Mgmt.	6 7/8	7 5/8	− 3/4
Pioneer Group	18 1/4	13 3/4	+4 1/2
T. Rowe Price	33 3/4	21	+12 3/4
Reich & Tang	13 1/2	15 1/2	−2
Thomson-McKinnon	10 1/4	9 1/2	+ 3/4
United Asset Mgmt.	13 1/2	11	+2 1/2
United Investors Mgmt.	11 7/8	7	+4 7/8
Value Line	20 5/8	25	−4 3/8

Photo courtesy of Coal Magazine

Pittston Co. management is proposing the company withdraw from the UMWA's multiemployer pension fund and establish a single-employer pension plan for its mine workers.

Withdrawal sought

Pittston proposes single-employer plan

By Trudy Ring

GREENWICH, Conn. — Pittston Co. executives want the company to withdraw from the $4.7 billion United Mine Workers of America Health and Retirement Funds and set up a single-employer pension plan for employees represented by the UMWA.

Meanwhile, the union has sued Pittston, charging it has violated federal pension law by creating nonunion subsidiaries to evade the terms of the union contract. Earlier, trustees of the pension fund had filed a lawsuit seeking contributions they claim Pittston owes the fund.

The proposal to withdraw from the multiemployer pension plan is part of what Pittston called its final offer to the union during contract negotiations in early November. The plan is jointly trusteed by the union and an employer group, the Bituminous Coal Operators of America. Pittston withdrew from the BCOA in 1987.

UMWA members at Pittston have been working without a contract since Jan. 31, 1988, and have pledged to strike Jan. 31 of this year if they still have no contract. Union officials said they offered to settle with Pittston on the same terms negotiated by the BCOA, but the company turned them down.

The union opposes Pittston's proposal to get out of the multiemployer plan. "The beauty of a multiemployer pension plan that covers a national industry is it has built-in portability," said David Blitzstein, administrator-special projects for the union. Mining is an occupation that needs such portability, he said; mines open and close, so miners aren't likely to spend their entire career with one company.

A Pittston spokesman declined comment on the

Continued on page 30

Use of property gains popularity as financial tool

By Andrew Reinbach

Bankers Trust Co.'s use of real estate-backed securities to provide $250 million in debt financing for the $1.1 billion leveraged buy-out of Stop & Shop Cos. Inc. emphasizes the arrival of real estate securitization in the mainstream of financing techniques.

The acquisition by Kohlberg Kravis Roberts & Co. and Stop & Shop management also points to the growing use of property resources to support larger corporate goals. Prudential Mortgage Capital Co., a unit of Prudential Insurance Co. of America, applied both ideas when Carter Hawley Hale secured a $347 million loan in 1987 by 27 of its stores and one distribution warehouse, and in a $400 million deal last year with Santa Fe Southern Pacific Corp., Chicago.

Bankers Trust's real estate lending unit created a $250 million senior/junior debt structure, issued as notes and supported by a AAA rated surety bond from Financial Security Assurance Co., to help KKR complete its buy-out of the Boston-based company by the end of the year.

An indication of the increased comfort level with real estate equity-backed securities among both lenders and borrowers is the acceptance in the Stop & Shop deal of a cross-collateralized debt structure. Each of the 40 supermarkets and three warehouses included in the overall collateral package stands as surety against default by any one property. Traditionally, such loans have been secured by the income stream from leases, rather than from the properties.

"Borrowers strenuously avoided (cross-collateralization) for a long time," said James D. Notewear, director of real estate advisory services for Laventhol & Horwath, Philadelphia. "A borrower wants to isolate his risk in any one project, and protect his assets. If a project goes bad, he can keep the good properties and let go of the bad."

Stop & Shop and KKR executives, "recognized that there was a certain degree of risk, but they accepted it, readily, because their concern was to have the cash to pay down the LBO debt," said Richard M. Gunthel, managing director in charge of the real estate lending unit at Bankers Trust.

But he added there are provisions in the deal that minimize the risk, including the ability — under restricted conditions — to allow the company to substitute properties.

"This is really an ongoing business," said a KKR official who asked not to be identified. "We could have fallout, but we also have a limited right of substitution, so we do have flexibility. We are not locked into this particular portfolio."

The Stop & Shop transaction has its roots in a 1988 hostile takeover attempt by Dart Group Corp., Washington, led by the Haft family. Dart had offered $37 per share, or $1.03 billion, for the company.

Stop & Shop management, however, turned to KKR, which borrowed a total of $1.425 billion to complete the acquisition of the company's 281 Stop & Shop supermarkets and Bradlees discount department stores, for $44 per share.

Stop & Shop had total sales of $4.3 billion in 1987. KKR is the

Continued on page 30

Bank spins off management group

CHICAGO — American National Bank & Trust Co. of Chicago has spun off its investment management group to position the bank to take advantage of any law changes that would allow banks to run mutual funds.

ANB Investment Management Co., the wholly owned subsidiary, is headed by Jack Tilton, formerly head of the bank's investment management group that had been set up in 1981 after a series of defections from the bank's investment division.

"This further step is nothing more than an exclamation point on that earlier move," said Mr. Tilton, who is president and chief investment officer of the subsidiary. American National manages $10.2 billion in tax-exempt indexed assets, and $1 billion each in active equity and fixed-income investments. The subsidiary received approval from the Securities and Exchange Commission shortly after Thanksgiving, and was effective Jan. 1, he said.

James Kartalia, managing director of marketing and client services, said the move is the latest the bank has taken under Mr. Tilton's direction to regain the prominence that had suffered with the lesser attractiveness of banks in the late 1970s and the departure of several key people in 1981.

In the space of two months of that year, the bank lost its group vice president of trust and investment department, Hal Arbit, who left to start his own money management firm, now Concord Capital Management; another vice president, Bob Boldt, and three top analysts; its marketing director, Ed Matz; and Rex Sinquefield, executive vice president, who left to join the then newly formed Dimensional Fund Advisors.

"In our case, we had some unique hurdles to jump," Mr. Kartalia said. "Literally, we lost our whole top echelon of people. It became almost a crisis management situation."

He said, however, the bank has overcome the general perception that "ANB was fading away," which he said might have hurt the bank when consultants did searches.

Mr. Kartalia said the bank, "while not having a high name recognition" — there are 40 American National Banks throughout the country, he said — has become very successful in lending to Chicago's small-to-medium commercial market as well as adding to tax-exempt assets under management.

Among Mr. Tilton's first directives, he said, were to forget consultants; not to focus on pension funds with more than $250 million in assets; to forgo working the West Coast because the bank was spread too thin; and to hire salespeople from outside the firm.

"We formed a team and told them to start 'dialing for dollars,' " Mr. Kartalia said.

Mr. Kartalia said evidence of the bank's turnaround is given by its climbing to the 10th largest bank in terms of tax-exempt assets under management from 17th between 1983 and 1988 in *Pensions & Investment Age*'s annual survey of money managers.

"In 1983, we had five investment products we could sell. Now we have 23," he said, adding the bank has added 150 clients in the past five years.

According to the Pensions & Investments' Performance Evaluation Report, the bank's $169 million Active Investment Fund returned 1.3% and −10.8% for, respectively, the quarter and year ended Sept. 30. The median fund returned 0.12% and −10.3%, respectively, for the periods, while the Standard & Poor's 500 Stock Index returned 0.3% and −12.4%.

For three and five years ended Sept. 30, the fund's compound annualized returns were, respectively, 16.9% and 14.3%. The respective medians were 16.6% and 12.9%, while the S&P returned a compound annualized 18.3% and 14.7%.

According to Mr. Kartalia, the bank's $105 million Bond-plus active fixed-income commingled fund, which is about 2 years old, has returned 17.5% for the year ended Sept. 30. For that same period, the PIPER median return for fixed income funds was 11.6%, while the Shearson Lehman Hutton Government/Corporate Bond Index returned 12.8%.

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CORRECTIONS & CLARIFICATIONS

• A story in the Dec. 12 *Pensions & Investment Age* incorrectly identified the index used by the **New York City Retirement Systems** for bond investments. Three of the five systems are restructuring their bond portfolios. The portfolios have tracked the Shearson Lehman Hutton Government/Corporate Bond Index; after the restructuring, they will track this index minus issues with maturities of five years or less.

• Third-quarter returns for the PRINT II account of **PCM International** were reported incorrectly in the Dec. 12 PIPER international fund listings. The correct figure is −0.14%.

• Indexed equity and fixed-income assets under management by **First Wisconsin Trust Co.** were transposed in a chart in the Dec. 26 issue. Domestic indexed equity assets should have totaled $100 million, and domestic indexed fixed income, $250 million.

First Chicago makes benefit plan changes

CHICAGO — First Chicago Corp. is discontinuing its profit-sharing plan and replacing it with a 401(k) plan and reducing the vesting period for its pension plan, effective Jan. 1.

The 401(k) plan will carry a 50% employer match to employee contributions. Vesting for the pension plan will be reduced to five from 15 years.

First Chicago Corp., parent company of First National Bank of Chicago and First Chicago Investment Advisors, has $536 million in defined benefit assets, according to its 1987 annual report. The profit-sharing plan has $10 million in assets.

The changes were detailed in a memo to employees. A bank spokesman confirmed the memo, but declined further comment.

INTERNATIONAL

Quants going global

Firms banking on growth of asset pool

By Joel Chernoff

After seizing a sizable piece of the domestic investment management business, quantitatively oriented firms are starting to carve out a piece of the growing international money management business.

Beginning with international index funds a decade ago, quantitative techniques are expanding to include active-passive strategies, computer-driven value screens, currency protection and global asset allocation techniques.

While still in its infancy, consultants and other investment experts think quantitative approaches eventually may take a significant, though probably a minority, portion of assets invested overseas by U.S. pension funds. Overseas assets of U.S. pension funds are expected to triple to $150 billion by the end of 1992 from $50 billion at the end of 1987, according to projections by InterSec Research Corp., Stamford, Conn.

Defining just what qualifies as a quantitative product isn't easy, the multiplicity of products and adoption of techniques from one to another makes it hard to distinguish them clearly.

"The distinction between quantitative and indexed and passive has become more and more blurred in the past couple of years," said Janice Harding, vice president at Frank Russell Co., Tacoma, Wash.

The advantages to pension executives are numerous, managers and consultants said. The inefficiencies that exist in foreign markets leave them wide open to application of more disciplined, quantitative techniques.

In a draft report, Robert D. Arnott and E. George Matthew, president and vice president respectively of First Quadrant Corp., based in Morristown, N.J., argue: "There is wide evidence that the world market as a whole is not efficient."

Inefficiencies are caused by differences in quantity and quality of information, legal, cultural and structural factors, government subsidies and faster growth rates in emerging countries, they wrote.

What's more, they argue traditional global managers lose sight of the fact the dominant player in local markets is the domestic investor. Thus, in Japan, where more than 95% of trading is done by domestic investors, comparison of Japanese price/earnings ratios with German p/es might be irrelevant. In addition, high corporate tax rates encourage Japanese corporations to minimize their reported earnings, also leading to high p/e values.

Failure to consider these local factors has caused global investors to underweight Japan in recent years, resulting in returns that lagged their bogeys and bolstering arguments in favor of quantitative approaches.

But that lagging performance doesn't perturb some pension executives. The $9 billion Oregon Public Employes Retirement System, with $825 million invested in international equities, underperformed the EAFE Index but still returned 48%, 57% and 18% in 1985, 1986 and 1987, respectively.

"I don't know how anybody could be disappointed with numbers like that," said James George, investment manager.

The rapidly improving quality of data for international securities, however, is making it easier to use quantitatively driven approaches. "The quality of the data has improved immeasurably since the '70s, and even in the past year or two," said Gary Bergstrom, president of Acadian Asset Management Inc., Boston, an international quantitative manager with

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International manager returns

Year	MSCI EAFE*	Median InterSec non-U.S. equity universe
1980	23.4%	28.8%
1981	−1.7	−0.6
1982	−1.3	3.9
1983	24.1	28.7
1984	7.5	−2.9
1985	56.1	55.9
1986	69.5	60.0
1987	24.9	11.3
1988**	11.1	6.1

* Returns are adjusted for non-recapturable portion of withheld dividends.
** First three quarters
Source: InterSec Research Corp., Stamford Conn.

Advisers building on U.S. services

Money managers are implementing a host of quantitatively driven strategies in the international arena.

Most of the foreign-market strategies adapt quantitative techniques that have been used domestically, including basic price-earnings screens and dividend-discount models.

One of the most interesting evolutions has been that of Batterymarch Financial Management, Boston, which started its computer-driven, contrarian approach to international equities in 1983. It now runs $1.3 billion in international equities and another $900 million in global strategies.

The approach "involves the application of quantitative disciplines to select stocks on overall cheapness without regard to industry or country selection," said Richard Gula, trustee.

At first, Batterymarch used ahistorical valuation measure to rank a universe of 800 stocks by relationship between each stock's current p/e to its 10-year p/e, price-book ratio and yield, respectively. Batterymarch also equal-weighted all portfolio holdings and used its automated trading system to lower transactions costs.

In the fourth quarter of 1986, Batterymarch altered its strategy, acknowledging the influence of the small-stock effect in Europe and Japan. Theory holds these less-studied stocks offer better, long-term rates of return.

The firm put 75% of its portfolio into small-cap stocks in Japan, the United Kingdom, Canada, West Germany and France, screening for p/e, price-book and yield on a current basis only. In Japan, it excluded stocks with market capitalization in the top 40%, while knocking out the top 20% in the other four markets.

For the remaining 25% of the portfolio, Batterymarch invested in emerging markets, looking at current vs. historic valuations, but adjusting by the historic standard deviation to limit volatility.

Now the firm is altering its strategy again, believing correlations of returns between the U.S. and foreign markets will change as international assets continue to cross borders more freely, Mr. Gula said. Thus, Batterymarch is trying to find ways to make country weights less important, while acknowledging Japan operates differently from other countries.

In addition, the firm is adapting its corporate valuation strategy, which looks at unused borrowing power and corporate cashflow, to its international model.

Another new wave of strategies involves the development of global asset allocation models.

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UPDATE

Japan recommended

NEW YORK — Despite stratospheric stock valuations, Salomon Brothers Inc. recommends increasing exposure to Japanese equities.

In its annual outlook for global financial markets, Salomon predicted the Nikkei 225 Index, which includes Japan's biggest stocks, will reach 35,000 by the end of 1989. It now is between 29,000 and 30,000.

In a global portfolio, Salomon recommends investing 48% in Japan, compared with 43.3% in the Salomon-Russell Global Indexes. Salomon also recommends placing 20% in Europe and 32% in the United States, compared with their respective weightings of 18.1% and 38.6% in the index.

Salomon projects Japan will experience real growth rate of 5% in 1989, accompanied by low inflation and interest rates.

Propelling the equity market will be very strong corporate profit growth. Results for the six-month period ended Sept. 30 reveal a 65.2% average increase from the previous year's level; the brokerage firm predicts a 25% corporate gain for the full fiscal year ended March 1989, and an additional 17% growth through March 1990.

Salomon predicts Japanese stocks will return 23% in yen terms — a whopping 36% in U.S. dollar terms.

The firm reduced its overweighting on real estate stocks, while keeping overweightings on non-manufacturing stocks, particularly in housing, construction and commerce.

Meanwhile, the firm also recommended investments in continental European equities, particularly in West Germany, Spain and Switzerland.

"Next year is unlikely to match 1988's spectacular performance, but gains will be underpinned by a combination of favorable earnings surprises, valuation and flow of funds support," according to the outlook report.

The firm predicted local currency returns on the Continent will average 10% to 15% during the next six to 12 months.

Strong flow of funds movements by industrial companies and foreign investors have buoyed European markets in 1988; Salomon expects institutional investors will return to the markets in 1989, after having rebalanced their portfolios following October 1987.

In the United Kingdom, monetary tightening that has increased interest rates to 13% from 7.5% in the past six months will reduce U.K. economic growth to about 2.5% from 4.5% in 1988, although profit margins have increased.

Salomon expects the British pound to approach $2 by mid-1989 from the $1.80 level now. Because about one-quarter of U.K. corporate profits stem from North America, "the translation effect alone could reduce earnings" by 2% to 3% in 1989, the firm said.

U.S. stocks are likely to trade in a narrow range during 1989. Re-

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Global Fixed Income

Lower risk. Reduced standard deviation.
Higher incremental return. CMI's global fixed income component.

It's a matter of interest.

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